

REPORT TO THE EXECUTIVE MEETING OF 11th FEBRUARY 2019

Meeting:	Executive
Date:	11th February 2019
Subject:	General Fund Revenue Estimates and Capital Programme
Report of:	Simon Riley, Head of Finance and Corporate Services (s151 Officer)
Portfolio Holder:	Councillor James Hallam, Portfolio Holder for Finance and Assets
Status:	Recommendation to Council
Relevant Ward(s):	All

1 Purpose of the Report

- 1.1 Executive to recommend the 2019/20 Budget and Capital Programme 2019/20 to 2021/22 to Council.
- 1.2 To consider the comments, questions and response from the Performance Scrutiny Panel on 24th January 2019.

2 Recommendations:

- 2.1 **Approve the 2019/20 General Fund Revenue Account Net Expenditure Budget of £12,299,619 as set out in Appendix A, for recommendation to Council on the 25th February 2019, resulting in a 0%¹ increase in the District Band D Council Tax for 2019/20.**

Subject to the approval of 2.1 above

- 2.2 **Recommend to Council the General Fund Budget as set out in Appendix A.**
- 2.3 **Recommend to Council the Capital Programme as set out in Appendix E.**

¹ This is the official measure of Council Tax as prescribed by the MHCLG and is based on the total budget requirement of the Council including services provided to all residents in the District and where the Council provides services to particular localities which are provided by Parishes elsewhere (Special Expenses). Special Expenses and the Harborough District Council element are split out on the Council Tax Bill and are detailed in paragraph 4.2.18.

3 Summary of Reasons for the Recommendations

- 3.1 The Council must set a balanced budget to discharge its duties and responsibilities by the 11th March 2019. The duty to recommend a budget to the Council rests with the Executive.

4 Key Facts

4.1 **Financial Headlines**

- 4.1.1 This budget has been prepared following a period of consultation following the provisional Local Government finance settlement issued by the Ministry of Housing, Communities and Local Government (MHCLG) on 13th December 2018. The final local government settlement was issued on 29th January 2019 which did not change the provisional allocations. A number of changes in the Revenue Budget and Capital Budget have been made since the provisional budget and these are detailed in the report.

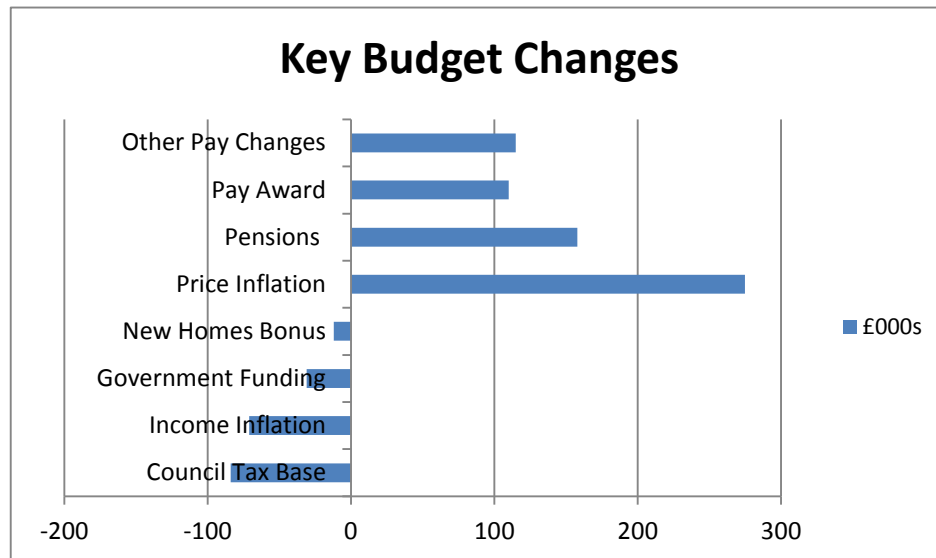
- 4.1.2 The budget attached at **Appendix A** reflects a continued reduction in Central Government funding as the Government addresses the public sector deficit. In order to provide stability in forecasting the Government offered four year funding, subject to submission of an efficiency plan. The Council's efficiency plan (submitted in October 2016) was approved and the settlement funding assessment received from Government for 2019/20 in the final settlement on 29th January 2019 was consistent with the funding assumed within the Council's Medium Term Financial Strategy (MTFS). The Council is no longer in receipt of Revenue Support Grant as a Government funding source.

2018/19		2019/20
£000s		£000s
8	Revenue Support Grant	0
1,703	National Share of Business Rates (NNDR)	1,742
134	Rural Services Delivery Grant	134
1,845	Provisional Settlement	1,876

The potential gain from the successful business rate pilot bid for 2019/20 is excluded from the proposed budget at this stage but is anticipated to yield approximately £½ million of additional funding on top of that detailed in Appendix A. This will be subject to the overall growth across Leicestershire and the retention of 75% of business rate growth rather than 50%. Any spend of the proceeds of increased rate retention will have to be consistent with the business rate pilot bid.

The Council also received a small increase of £12K in New Homes Bonus (NHB) that was in line with the Council's forecast.

4.1.3 The Council budgets within its MTFs for a series of headline changes such as inflation, pay and pensions, changes in National Government Funding etc. These are largely externally set with limited ability of the Council to influence. These are detailed in the below graph.



Increases in the national inflation rate and pay awards has placed additional pressure on the Council's finances for 2019/20 alongside assimilation of the pay-spine.

4.1.4 The settlement gave a direction of travel in respect of locally generated funds and included:

- (a) An assumption within the Government measure of spending power that Councils will maximise Council Tax increases (assumed by MHCLG to be 3%)
- (b) The continuation of the 4 year NHB allocation. However, there is a risk that it could be phased out/removed from 2020/21 onwards
- (c) The Government is still committed to changes in the business rate retention scheme and possible reset from 2020/21 onwards. Consultation papers on fair funding and needs assessment and business rate retention were issued alongside the provisional settlement in December 2018.

4.1.5 The continued reduction in Government funding and volatility in the framework for locally generated funding provides significant uncertainty over the funding levels for future years. The revenue budget focuses on the 2019/20 financial year and details a balanced budget with detailed growth, savings and income generation proposals for portfolios and centrally held items.

- 4.1.6 During 2018/19 a review was undertaken of the business rate appeals provision that the Council has to make under the current framework for Business Rates. It concluded that the appeal provision provided for in 2017/18 and 2018/19 for potential appeals was overly prudent based on the appeals lodged with the Valuation Office for the 2017 Rateable Value list. This released back into the Revenue Account provides £0.6 million to support the Revenue Budget as a funding source in 2019/20.
- 4.1.7 The proposed Revenue Budget continues the use of earmarked reserves to support Council priorities but has been able to reduce the budgeted contribution from the General Fund Reserve to £23K (2018/19 £394K). This level of support from the General Fund Reserve is considered sustainable in light of the level of reserves retained by the Council.
- 4.1.8 The Council has an ambitious Capital Programme linked to the corporate priorities of The Place, The People and Your Council. A programme totalling £57.1 million is proposed for 2019/20 to 2021/22. The Council intends using a mixture of external funding, capital receipts, capital flexibilities and borrowing to fund this programme. The revenue consequences of additional unsupported borrowing are built into the budget attached at **Appendix A**.
- 4.1.9 On 28th January 2019 Council approved the fees and charges for 2019/20. These are incorporated within the Revenue Budget for 2019/20
- 4.1.10 The recommended budget proposes an overall Council Tax increase of 0% for 2019/20 to meet its net budget requirement. The budget requirement includes all the expenditure by the Council including both General Fund and Special Expense items. The measure of overall Council Tax is prescribed by MHCLG. Details of the split between the Harborough District Council element and Special Expenses and their impact on published Council Tax is detailed in paragraph 4.2.18
- 4.1.11 The Council continues to respond successfully to the challenge of reduced government funding as detailed in the table below which shows the Council's successful response to austerity.

	Reduction in Core Government Funding £000s	Savings £000s	Income Generation £000s	Sub Total £000s
2014/15	438	(107)	(55)	(162)
2015/16	452	(338)	(203)	(541)
2016/17	568	(710)	(460)	(1,170)
2017/18	477	(77)	(623)	(700)
2018/19	255	(277)	(385)	(662)
2019/20	(31)	(105)	(842)	(947)
Total	2,159	(1,614)	(2,568)	(4,182)

4.1.12 The Council has during this period successfully managed this reduction in Government funding whilst largely maintaining its spending power and investing in priorities through high level of performance in generating locally generated income sources (primarily Business Rate Retention and New Homes Bonus).

4.2 Budget Proposals

4.2.1 Revenue Budget

4.2.2 The recommended budget for 2019/20 is attached at **Appendix A**. This is based on the final Government settlement issued on 29th January 2019 and updated forecasts of expenditure and income for the 2019/20 financial year since the issue of the provision budget for consultation.

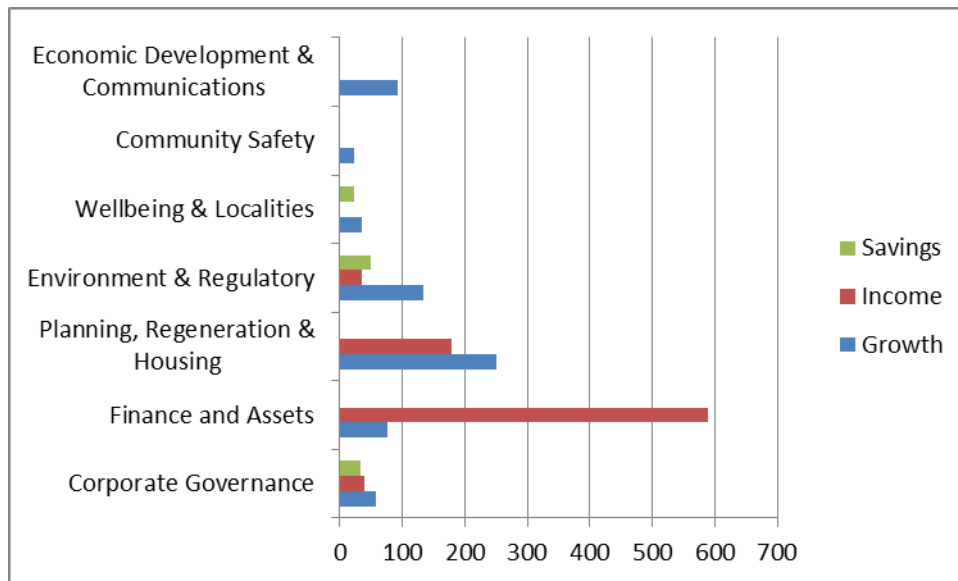
4.2.3 The following changes have been made to the Revenue Budget since the budget issued for consultation.

Changes in 2019/20 Revenue Budget (post consultation)

Income	£000s	Expenditure	£000s
Loan Payment from wholly owned local authority company	(150)	Lightbulb Project	23
Increase in DWP Grants	(3)	Changes in Salary Budgets	10
Reduction in Collection Fund Surplus	42	Management Fee – Interim Leisure Services Contract	84
Increase in Business Rate Retention Levy (estimate)	(430)	Reduction in contribution to Revenues and Benefits Partnership	(16)
		Increase in Business Rate Retention Levy transferred to earmarked reserve (estimate)	430
Sub Total	541	Sub Total	531

Updated figures have been incorporated into the budget for Business Rate Retention (based on the NNDR1 return submitted at the end of January) and for the Collection Fund Surplus (calculated at the 15th January 2019)

4.2.4 Details of Growth, Savings and Income Generation for portfolios are attached at **Appendix B and C** and are summarised in the chart below. The schedule of growth and income have been updated since the budget issued for consultation to include the additional £150K loan repayment from the local authority company and growth bids linked to economic development.



Note: Above Graph excludes growth funded directly from reserves

This shows the increasing importance of income generation in supporting Council Services. Examples of this are investing up to £5 million of the Council's investments into property funds with an estimated £200K of additional income from these investments. The Council is also proposing an ambitious capital programme which includes commercial investments and development of Housing Sites to generate revenue and capital returns.

4.2.5 The Council through tendering for an Interim Services Agreement for operation of the two Council owned Leisure Centres secured a projected management fee from the proposed new provider of £84K per annum for the next 3 to 4 years compared to a fee paid to the current provider of £138K per annum. Discussions with the new provider are taking place in respect of Council investment in Leisure Centre Equipment and an additional £262K of investment in equipment is included within the capital programme.

4.2.6 The budget also invests reserves to allow the continuation of grants to communities and the successful work of leisure outreach services from the Council to communities.

4.2.7 Growth Bids support the Council Priorities in areas such as Economic Development, Community Safety and fund unavoidable cost pressures and/or essential investment in services.

4.2.8 Capital Budget

4.2.9 The recommended Capital Programme for 2019/20 to 2021/22 is attached at **Appendix E** and totals £57.1 million for the period. The Capital Programme is to be funded from a variety of funding sources including capital receipts, external funding, reserves, Better Care Fund and new income sources. Following a change in the MRP policy approved by Council on 10th December 2018 the Council is able to exercise capital flexibility to not provide for a

minimum revenue provision where the upfront spend is on expenditure that will generate future capital receipts, for example housing schemes – this is described as ‘MRP exemption’. There has been one amendment to the Capital Programme issued for consultation; inclusion of an additional £262K into new Leisure Centre Equipment (see paragraph 4.2.5) funded from Capital Receipts.

4.2.10 The three year Capital Programme includes:

- (a) The Grow On Space project which will be completed in 2019/20 (£7.9 million)
- (b) Provision for a new Leisure Centre (£21.6 million including contingency) previously agreed by Council
- (c) Development of the De Verdon Road site for Housing (£10.8 million)
- (d) Commercial Property Investments (£10 million)
- (e) Harborough Housing Fund (£0.8 million)
- (f) Play Area Equipment (£0.7 million)

These capital schemes are expected to make real differences to the communities and residents of Harborough District whilst ensuring that the Council is innovative and pro-active in Service Delivery.

4.2.11 The financing of the Capital Programme includes provision for borrowing over the period which will be included within the Prudential Indicators report to be approved at Budget Council in February 2019. A significant proportion of the projected borrowing is linked to the provision for a new Leisure Centre which could be partially offset by a Management fee paid by a Leisure Operator.

4.2.12 A number of schemes generate capital receipts that will materialise post 2021/22 and will support the delivery of the Capital Programme in future years.

4.2.13 **Financing**

4.2.14 The Council funds its Net Budget Requirement from Central Government Funding, Grants, Business Rate Retention and Council Tax. Income generation within portfolios is detailed within the net direct cost of services line.

4.2.15 The final settlement confirmed that the Council will no longer receive Revenue Support Grant (RSG) (In 2015/16 this was £1.8 million). This reduction was forecast in the MTFs with the Council welcoming the Government’s reversing the potential risk of negative RSG of £0.3 million that if implemented would have placed additional pressures on services. The Council receives baseline business rate funding level of £1.742 million (before the application of the business rate pilot bid).

4.2.16 The Council continues to utilise the rewards of growth from business rate retention to support the delivery of services and to promote economic development. The budget assumes that £1.4 million (the same as last year) is

applied from the business rate retention reserve alongside the £0.6 million available from a review of the appeals provision. Anticipated business rate retention in 2019/20 is £1.4 million. The Council continues its approach of only using this funding when 'banked' and does not rely on in-year 2019/20 receipts which are transferred into the business rate retention reserve.

4.2.17 The Council with all other Leicestershire Councils submitted a business rate pilot bid to test out 75% Business Rate Retention. This bid was successful with the expected benefit to Leicestershire and the City being in the region of £14 million. It is expected approximately £0.5 million will be available to Harborough District to assist with financial sustainability (for example, homelessness demand) and investment in town centres. The bid allocation details are still being agreed by Leicestershire Councils and will be dependent on overall growth across Leicestershire. Any additional money as part of the £14 million will be put into the business rate retention reserve as per the Council's current practice and therefore is not included within the budget at Appendix A at this stage.

4.2.18 Council Tax is becoming a major source of funding for Local Government with the ending of the freeze grants a couple of years ago and the Government in their spending power forecasts assuming that Councils will maximise Council Tax each year.

The budget assumes an increase in Council Tax yield of £84K (assuming no increase in Council Tax from 2018/19) as a result of an increase in properties – this is known as the Council Taxbase.

The budget proposes a zero percentage increase in the overall Council Tax as defined by MHCLG² (this includes the Harborough District Council Element and Special Expenses) to fund the Net Budget requirement of the Council.

On the Council Tax bills the overall Council Tax is split into the Harborough District Council Element (provided to all residents in Harborough District) and Special Expenses which relate to specific localities where the Council is providing services which are provided by Parish Councils elsewhere.

² See footnote 1 for explanation

	2018/19 Band D Charge	2019/20 Band D Charge	% Change shown on Council Tax Bill
	£	£	%
Harborough District Council (Separate Line on the Indicative Bill)	152.32	151.60	(0.5)
Special Expenses (Separate Line on the Indicative Bill)			
Blaston	8.40	15.15	80.2
Broughton Astley ³	0.00	4.27	0
Fleckney ⁴	0.00	0.76	0
Foxton	0.64	8.97	1302.1
Great Bowden ⁵	0.00	9.21	100.0
Great Easton	13.31	13.71	3.0
Great Glen ⁶	0.00	1.84	0
Lutterworth	16.54	11.38	(31.2)
Market Harborough	51.51	53.83	4.5
Saddington	23.37	44.51	90.5
Scraptoft ⁷	0.00	6.03	0
Thurnby & Bushby	29.77	25.02	(16.0)

The Harborough District Council element charged to all residents of the District has reduced and will be shown as a minus 0.5% reduction⁸ on the Council Tax Bill for 2019/20.

³ Broughton Astley is a new Special Expense Charge for 2019/20. There is no 2018/19 charge. This will be shown as 0% increase on the Council Tax bill for 2019/20.

⁴ Fleckney is a new Special Expense Charge for 2019/20. There is no 2018/19 charge. This will be shown as 0% increase on the Council Tax bill for 2019/20.

⁵ As the Special Expense was zero in 2018/19 the Council tax system will show the special expense movement as 100%

⁶ Great Glen is a new Special Expense Charge for 2019/20. There is no 2018/19 charge. This will be shown as 0% increase on the Council Tax bill for 2019/20.

⁷ Scraptoft is a new Special Expense Charge for 2019/20. There is no 2018/19 charge. This will be shown as 0% increase on the Council Tax bill for 2019/20.

⁸ Council Tax levels and changes for the General Fund and Special Expenses is based on total level of expenditure for each category and the tax-base for the District as a whole and for localities who are charged special expenses. For 2019/20 more expenditure is charged to special expenses than for 2018/19. This combined with an increase in the tax-base for the District as whole results in a 0.5% reduction in the Harborough District Council Element for 2019/20. The band D charge for the Harborough District Council element will be £151.60 (2018/19 £152.32). Special Expenses are locality specific.

Council in December 2018 amended the Special Expenses Policy to set up a Special Expense Reserve (the previous policy was to refund/charge these as part of the special expense charge the following year). These reduced the 2018/19 charge for certain localities and therefore the change in reserves policy results in large percentage changes in this transition year.

4.2.19 Reserves

4.2.20 The Council has a series of reserves that have been set aside to deliver Council priorities and to support medium term financial planning. In addition, the Council retains a General Fund Reserve which is retained at or above a level recommended by the S151 Officer. The S151 Officer Assessment of the level of reserves is detailed in the required Section 25 assessment detailed in **Appendix G**. Based on this assessment there is scope for the use of reserves on a recurrent and non recurrent basis to support the delivery of Council priorities and delivery of a balanced budget in 2019/20.

4.2.21 The planned utilisation of reserves is detailed in **Appendix D** and is summarised below:

	Estimated Opening Balance 2019/20	Planned Use of Reserves 2019/20	Estimated Closing Balance 2019/20
	£000s	£000s	£000s
General Fund Balance	5,133	(23)	5,110
Earmarked Reserves (excluding General Reserve Fund)	5,107	(1,194)	3,913
General Reserve Fund	935	(150)	785
Capital Reserves	3,079	(687)	2,392
Total	14,254	(2,054)	12,200

4.2.22 The recommended budget utilises a series of earmarked reserves to support service delivery and Council priorities. New reserves have been set up to support the Grow On Space (Council, 19th March 2018) and Special Expenses Reserve (Council, 10th December 2018). The proposed budget continues the funding of Community Grants (£50K) and Sports and Leisure activity (£25K) through application of the VAT Shelter reserve that had been generated post the housing stock transfer to Seven Locks. These were previously funded through other earmarked reserves.

4.2.23 The recommended budget assumes a contribution of £23K from the General Fund to support the budget. This is a reduction of £371K from 2018/19 where the budgeted contribution was £394K.

4.2.24 Based on the in-year budget monitoring for 2019/20 (para 4.2.27) it is anticipated there will be further additions to the reserves from the in-year surplus (2018/19). This will be confirmed as part of the statement of accounts.

4.2.25 Reserves remain healthy and will be used as part of the next MTFS to support priorities but to also to mitigate against or smooth the impact of potential significant changes in the Government funding framework going forward.

4.2.26 Revised Estimate

4.2.27 The Council in February 2018 approved a Net Expenditure budget requirement of £11.258K in 2018/19. The Quarter 2 budget monitoring reported to Executive on 3rd December 2018 forecast a surplus of £476K for the financial year 2017/18. The in-year underspend will be added to reserves once confirmed as part of the 2018/19 Statement of Accounts and will be used to support the MTFS.

5 Legal Issues

5.1 The Council is required to consult on its budget prior to formulating its budget requirement. The consultation period has been undertaken between the 15th January and the 10th February 2019. In setting the final budget requirement the Council is required to set a balanced budget by the 11th March 2019. The Council is scheduled to approve the budget on 25th February 2019.

6 Resource Issues

6.1 The budget sets down the spending plans and priorities for 2019/20. Subject to the passing of the budget resolution on the 25th February 2019 at full Council the budget sets down the approved budget for 2019/20. Budgets are delegated to budget holders and monitored throughout the year.

7 Equality Impact Assessment Implications/Outcomes

7.1 There are no specific equalities & diversity issues affecting the recommendation in this report to issue for consultation, though any such issues affecting particular service pressures and savings have been considered when those proposals were submitted. Any changes arising from the consultation or implementation of policy thereafter will be subject to assessment as appropriate.

8. Risk Management Implications

8.1 The budget proposals are subject to a risk assessment in their formulation and subsequent delivery. An overall assessment of the risks in the Budget Strategy (**Appendix G**, Section 25 statement) by the S151 Officer forms part of this report.

9 Consultation

9.1 Executive issued the Budget for consultation on the 15th January 2019. The consultation period ran from the 15th January to the 10th February 2019. The Performance Scrutiny Panel considered the report on the 24th January 2019. In addition, consultation was undertaken with:

- Trade Unions
- Local Businesses and Commercial Ratepayers (via social media)
- General public through the website and opportunity to comment on the budget. This link was promoted via social media.

9.2 There were no issues arising from the consultation with the Trade Unions and Performance Scrutiny that required or led to changes in the proposed budget. Any feedback from the public or business consultation will be tabled at the meeting.

10. Options

10.1 The Council has a legal obligation to set a balanced budget. The Executive Budget report of the 14th January 2019 was issued for consultation between the 15th January and 10th February 2019. The outcomes of the consultation will be tabled at the Executive meeting on the 11th February as **Appendix H**. The Executive should consider the outcomes of the consultations in recommending a budget to the Council.

11 Background Papers

11.1 Budget working papers and collaborative planning system.

11.2 Budget issued for consultation, 14th January 2019 Executive.

11.3 Final Local Government Provisional Settlement, 29th January 2019.

Information Issued Under Sensitive Issue Procedure: N

Ward Members Notified: N

Appendices:

- A. Proposed 2019/20 Budget**
- A(i) Proposed 2019/20 Budget (Expenditure and Income)**
- B. Savings & Income Generation Proposals 2019/20**
- C. Growth Proposals 2019/20**
- D. Summary of Reserves 2019/20**
- E. Capital Programme 2019/20 to 2021/22**
- F. Draft Minutes of Performance Scrutiny Panel, 24th January 2019**
- G. Section 25 Assessment**
- H. Consultation Responses (to be tabled at the Executive, 11th February 2019)**
- I. Illustrative Council Tax Bill**